

Eastern Oklahoma State College
A Component Unit of the State of Oklahoma

Financial Statements
with Independent Auditors' Reports

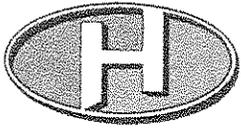
June 30, 2015



Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
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Independent Auditors' Report

Board of Regents
Eastern Oklahoma State College
Wilburton, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the Eastern Oklahoma State College as of and for the year ended June 30, 2015, the related notes to the financial statements, which collectively, comprise the Eastern Oklahoma State College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statement referred to above present fairly, in all material respects, the financial position of the Eastern Oklahoma State College as of June 30, 2015, and the changes in financial position and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

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Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through vi be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was performed for the purpose of forming an opinion on the financial statements of the Eastern Oklahoma State College taken as a whole. The schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is also not a required part of the financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures is fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2015 on our consideration of the Eastern Oklahoma State College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Tulsa, Oklahoma
October 27, 2015

Hick & Company, PC





Management's Discussion and Analysis of Significant Factors Affecting the Institution's Financial Statements

This discussion and analysis of Eastern Oklahoma State College's (College) financial statements provides an overview of the College's financial performance during the fiscal year ended June 30, 2015, with comparison to the previous year. Since the management's discussion and analysis is designed to focus on current activities, resulting change and current known facts, please read it in conjunction with the College's basic financial statements and the footnotes.

Using This Report

In June 1999, GASB released Statement No. 34 *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Changes in Statement No. 34 require a comprehensive look at the entity as a whole, capitalization of assets, and recording depreciation. In November 1999, GASB issued Statement No. 35 *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, which applies these standards to public colleges and universities. The State of Oklahoma elected to adopt all applicable standards to State governments for the fiscal year ended June 30, 2001. To comply with the State's decision, the College adopted these standards as well.

The College adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* in the Fiscal year 2005. This Statement requires public institutions with fund-raising foundations or other affiliated organizations to include them as component units in the institution's financial statements, under certain circumstances. As a result, the College has concluded the Eastern Oklahoma State College Development Foundation is a component unit of the College and, accordingly, has included the Foundation's financial statements in this report. Refer to those financial statements for appropriate interpretation and analysis since management neither prepares nor oversees those financial results.

This year the College adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pension*. This statement requires non-funded pension liability to be recorded on the contributing employers Financial Statements based on a prorated basis of all between a contributing entities. Due to this change in accounting principal the College had to adjust Net Position as of the beginning of the fiscal year. (Please refer to Note 1 and Note 7 for further information on this issue).

The purpose of the Statement of Net Assets for the College is to report the financial position of the College at a point in time, the report date. The Statement of Net Assets reports assets, liabilities, and net assets in a single column, separating current and noncurrent assets and current and noncurrent liabilities, as well as deferred, inflows and outflows. Net assets report investments in fixed assets net of accumulated depreciation, restricted net assets by restrictive covenants and the balance of net assets are reported as unrestricted net assets.

A primary purpose of the Statement of Revenues, Expenses, and Changes in Net Assets is to show whether the College is better or worse off as a result of the year's activities. When revenues exceed expenses, the result is an increase in net assets. The Statement of Cash Flows presents the sources and uses of cash and cash equivalents and a reconciliation of these flows to net operating revenues.

The College follows the accrual method of accounting, reporting revenues and expenses as they occur rather than when cash is received or expended. The College engaged a firm in fiscal year 2001 to inventory and value all fixed assets. That evaluation serves as a basis for the cost and accumulated depreciation for fixed assets reported in the financial statements purchased prior to that year. The College records the cost of fixed assets when purchased and the disposed. Depreciation is recorded on all depreciable assets on a straight-line basis and according to the guidelines established by the College for depreciable lives. (See Note 1 for more information on these guidelines.)

Financial Highlights

The College's net assets at June 30, 2015 and 2014 were \$450,029 and \$13,283,393, respectively, a decrease of \$12,833,364.

Operating revenues increased by 7%, from \$7.7 million to \$82 million for fiscal year 2015. Tuition and fee revenues, a major component of operating revenues, which includes only tuition and fees paid directly by students increased \$70,414 for fiscal year 2015.

Due to the adoption of GASB statement No 68, Accounting and Financial reporting for Pensions, the College had to make an adjustment to beginning of year. Net Position of (\$14,667,026). This was the College portion of Oklahoma Teachers Retirement System (OTRS) unfunded Pension Liability. The current year's change in Net Position was \$1,833,662.

The largest change in Operating Revenues related to Sales and Services of Auxiliary Activities of \$605,859 or 64%. This is due to the increase in our student staying on the main campus in our dorms and apartments and having a meal plan.

Almost all areas of Operating Expenses decreased due to the College cutting non-necessary spending in an effort to offset current year and expected future year cuts of state funding and the decrease in student credit hour enrollment. One area, Other Expenses did see an increase of \$795,416 or 1.36%. The College accrued a \$1,086,609 repayment of Title IV funds and related interest that was assessed by the Department of Education Final Program Review Determination. The College has appealed this determination but recorded the full amount as of June 30, 2015 as the outcome of the appeal cannot be estimated at this time.

On behalf contributions from OTRS increased due to new handling of Pension accounting and interest expense decreased as a result of debt refinancing in the last couple of years.

Financial Analysis of the College as a Whole

Statement of Net Assets

	2015	2014
Assets:		
Current assets	\$ 5,074,497	\$ 5,423,348
Capital assets, net	25,768,835	24,987,017
Other assets	435,364	438,546
Total assets	31,278,696	30,848,911
Deferred Outflow	1,665,016	253,678
Liabilities		
Current liabilities	3,355,477	2,562,225
Noncurrent liabilities	5,764,907	15,028,403
Total liabilities	29,120,384	17,590,628
Deferred Inflows	3,373,299	210,568
Net assets		
Invested in capital assets, net of debt	11,853,283	8,893,931
Restricted – expendable, debt service	435,363	438,512
Restricted – expendable, Grant funds	1,822,473	1,178,748
Unrestricted	(13,661,090)	2,772,202
Net Position, End of year	\$ 450,029	\$ 13,283,393

Statement of Revenues, Expenses, and Changes in Net Assets

Graphic illustrations follow that report elements of the Statement of Revenues, Expenses, and Changes in Net Assets including Operating Revenues by source, Operating Expenses by natural classifications, and Non-operating Revenues. Previous year amounts are also reported for comparative purposes. See the financial highlights section previously reported in this analysis and the financial statements for additional analysis of these figures.

Operating Revenues

Source of Revenue	Fiscal Year 2015	Fiscal Year 2014	Net Change
Tuition and fees	\$ 2,446,452	\$ 2,376,038	\$ 66,103
Federal grants and contracts	\$ 3,056,208	\$ 3,017,229	\$(1,077,027)
State grants and contracts	\$ 1,096,356	\$ 1,373,276	\$ (219,516)
Sales and services of Auxiliary Activities	\$ 1,544,588	\$ 938,729	\$ 121,823
Other operating revenues	\$ 96,807	\$ (17,326)	\$ 787,822

Operating Expenses by Natural Classifications

Classification	Fiscal Year 2014	Fiscal Year 2013	Net Change
Compensation	\$ 11,428,546	\$ 11,074,964	\$ 353,582
Contractual services	\$ 2,074,025	\$ 2,181,995	\$ (107,970)
Supplies and materials	\$ 2,361,628	\$ 2,994,638	\$ (633,010)
Communication	\$ 136,440	\$ 141,179	\$ (4,739)
Depreciation	\$ 1,268,085	\$ 1,208,572	\$ 59,513
Utilities	\$ 628,336	\$ 542,765	\$ 85,571
Scholarships and fellowships	\$ 2,394,298	\$ 2,259,694	\$ 134,604
Other operating expense	\$ 584,241	\$ 1,624,496	\$ (1,040,256)

Non-operating Revenues (Expenses)

Revenues (Expenses)	Fiscal Year 2014	Fiscal Year 2013	Net Change
State appropriations	\$ 6,686,987	\$ 6,561,771	\$ 70,414
State Payments - ARRA	\$ 0	\$ 0	\$ 38,979
Federal and state grants	\$ 4,925,994	\$ 5,713,039	\$ (276,920)
On-behalf Teachers' Retirement System Contributions	\$ 535,000	\$ 531,200	\$ 3,800
Investment income	\$ 51,203	\$ 83,319	\$ 605,859
Interest expense	\$ (999,446)	\$ (674,008)	\$ 114,133

Statement of Cash Flows

Cash at June 30, 2015 was \$3,359,714 compared to \$4,948,173 at June 30, 2014, a decrease of \$1,588,459 as explained below.

Cash used in operating activities decreased \$3,502,974 from \$14,587,853 to \$11,084,879 for the years ended June 30, 2014 and 2015, respectively. Inflows of cash included receipts from tuition and fees, grants and contracts, and auxiliary enterprise sales. Outflows of cash consisted of payments to employees and suppliers. This decrease in cash used in operating activities was the result of an increase in cash received in grants and contracts and auxiliary enterprises. In addition a decrease in payments made to employees vendors, helped bring about this change.

Cash provided by non-capital financing activities decreased by \$976,394, primarily due to a decrease in non-operating grants.

Cash used in capital and related financing activities, which includes receipts for the purchase of capital assets offset by the purchase of capital assets or payment of principal and interest, increased \$110,227. This was mainly due to an increase in capital appropriations of \$1,733,209 and an increase of principal and interest paid on capital leases and bonds.

Cash provided by investing activities decreased by \$73,651 due to an decrease in the interest rate earned by investments.

Capital Assets

In recent years, the College has made significant investments in capital assets. As of June 30, 2015, the College had a net book value of fixed assets of \$25,768,835 compared to \$24,987,017 the previous year-end, an increase of \$781,818. Investments for the current year included \$1,418,032 in construction and major repair of buildings and infrastructure, the purchase of equipment, livestock, and library books. Depreciation recorded for 2015 and 2014, was \$764,808 and \$1,208,572 respectively.

Capital Financing

The College has secured financing for capital expenditures through four separate processes. The College has issued two Revenue Bond Series. The "Student Facilities Revenue Bonds, Series 1997" were issued to remodel and improve the student union and a residence hall. During 2004, the "Oklahoma Development Finance Authority Eastern Oklahoma State College-Capital Improvement Projects, Series 2004" were issued to construct a second classroom building at the McAlester Campus. The remaining principal due on these two bonds at June 30, 2015 was \$1,445,000. Interest rates on these bonds range from 2.4% to 10%. Funds used to repay these bonds come from revenues pledged including a student facility fee assessed to students on a per credit hour basis, currently \$13.35 per hour, supplemented by net revenues of certain auxiliary enterprises if necessary, and a pledge of Section 13 Offset funds for the 2004 bond repayment. For the years ended June 30, 2015 and 2014, the net revenue from pledged sources before debt service payments was \$460,703 and \$415,662. Required payments for the years ended June 30, 2015 and 2014 was \$222,000 principal, plus \$77,026 and \$87,963 of interest, respectively.

The College has two capital lease obligations through the OCIA to finance capital expenditures -- under the 1999 series and the 2005 series. Proceeds from the 1999 series debt were used to finance an addition to the library/administration building, while the 2005 series was used to fund construction of the new Student Center, construction of various ADA /infrastructure projects and to purchase a new integrated campus-wide ERP software system. The Oklahoma State Legislature appropriates revenues each year to fund the amount of principal and interest due for that year. The College is required to pay any principal and interest due and not appropriated by the legislature because of a lack of funding. These two obligations have been refinanced several times by the State. The capital lease obligations at June 30, 2015 for the 1999 series were \$291,879 and the 2005 series were \$6,058,304 extending through the period ending 2031. For the years ended June 30, 2015 and 2014, the Oklahoma State Regents for Higher Education made on-behalf payments of \$539,538 and \$98,988 for the total principal and interest due for the year. Accordingly, the College did not make any payments this year.

At this time the College has four Equipment Master Lease/Purchase agreements with the ODFA (Oklahoma Development Finance Authority, an agency of the State of Oklahoma). The College obtained funds through a Master Lease/Purchase agreement with the ODFA in 2005 (refinanced in 2005) for the purpose of financing \$2,951,180 in equipment related to the conservation of energy on the campus. At June 30, 2015, the remaining principal obligation was \$1,705,416 and interest obligation was \$340,889, due through 2025. The College obtained additional funding through Master Lease/Purchase agreements with ODFA in fiscal year 2011. The 2010A Master Lease/Purchase was for the purpose of financing \$400,000 to remodel the College's Apartments. The 2011A Equipment Master Lease/Purchase was for the purpose of acquiring certain equipment items. The College obtained these funds for the purpose of financing \$550,000 to remodel two classroom buildings on campus and \$50,000 to purchase dorm furnishings. At June 30, 2015, the remaining principal obligation was \$432,250 and interest obligation was \$115,480, due through 2026. During fiscal year 2012 the college obtained funds through the Master Lease/Purchase agreement with the ODFA for a total amount of \$4,900,000. This Master Lease/Purchase was for the purpose of remodeling the Administration building, Pratt Hall, Gunning Hall, Baker Hall, for the construction of the Regency Court Apartments, and for certain equipment and furnishings. At June 30, 2015, the remaining principal obligation was \$4,158,750 and the interest obligation was \$1,658,490, due through 2031.

At the end of the fiscal year the College has two Lease/Purchase agreements. During the fiscal year 2012, the College entered into a lease purchase agreement with Government Capital Corporation/Security State Bank of Wewoka. This agreement was entered into to provide lease purchase financing in the amount of \$247,750 for the installation of baseball lights. At June 30, 2015, the remaining principal obligation was \$148,820 and the interest obligation was \$13,260 due through 2019. During fiscal year 2015 the College obtained funds through a Lease/Purchase agreement with Central Trust Bank for the purpose of financing \$128,593 to obtain a 2015 Ford Activity Bus. At June 30, 2015, the remaining principal obligation was \$128,593 and interest obligation was \$15,643, due through 2020.

Net Assets

Investment in capital assets increased \$2.9 million in 2015, to a balance of \$11.853 million. This increase is primarily a result of a decrease in current and noncurrent liabilities.

Restricted net assets for debt service stayed level for the year ended June 30, 2015. These net assets are comprised of cash and cash equivalents with restrictions for debt service funds. Restricted net assets for grant funds increased by \$643,725 which is a result of an increase in cash and grant receivables.

Unrestricted net assets include net assets other than restricted assets and capital assets. Unrestricted net assets decreased by \$16.4 million to a negative \$13.7 million at June 30, 2015 mainly due to recording the Colleges portion of OTRS unfunded pension liability.

Net Position

Net Position	Fiscal Year 2015	Fiscal Year 2014	Net Change
Invested in capital assets, net	\$ 11,853,283	\$ 8,893,931	\$ 2,959,352
Restricted for loans	\$ -	\$ -	\$ 0
Restricted for capital projects	\$ -	\$ -	\$ 0
Restricted for debt service	\$ 435,363	\$ 438,512	\$ (3149)
Restricted for Grant funds	\$ 1,822,473	\$ 1,178,748	\$ 643,725
Unrestricted	\$ (13,661,090)	\$ 2,772,202	\$ (16,433,292)

Economic Outlook

During fiscal year 2003, the College, as well as most state agencies of Oklahoma, began receiving reductions in state appropriations. During fiscal years 2003 through 2005, the College's reductions in state appropriations amounted to approximately \$983,000. The declining trend reversed with the beginning of 2006, as the College received a 1.4 million increase in state appropriations over the next four years (2006 through 2009). In 2010-2012 the College received a reduction of \$486,076 in state funding. In 2013 and 2014 the College received small increases totaling \$153,507 and in FY15 the budget was flat. Tuition and fee increases were approximately 5% per credit hour in both fiscal years 2006 and 2007, 7.8% in 2008, 9.9% in 2009, 0% in 2010, 5.5% in 2011, 7% in 2012, 5% in 2013-2014 and 6.8% in 2015.

Given the overall reductions in state appropriations and the related impact on the current budget base, the College continued to develop scenarios to hold down costs while preserving the ability to deliver quality instructional programs to its students. The College is anticipating a 3.5% or \$229,096 decrease in FY 16. While the state appropriated dollars have declined the last several years, our student numbers rose but are now going down. The college has worked to minimize the impact of our budget cuts on departmental budgets. The college is hopeful that Spring 2016 enrollment will rebound so that our upward trend will start again. The Economic forecast for 2016 is down at this time. The College is trying to safeguard its reserves so that if needed it will be available in the upcoming years. However, the college is continuing to look for ways to effectively allocate resources and support the excellent programs offered at the College, while at the same time looking for areas that expenses can be reduced with a minimal impact on student programs and services.

Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Statements of Net Position
June 30, 2015

	Eastern Oklahoma State College	Eastern Oklahoma State College Development Foundation
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,374,677	\$ 949,963
Restricted investments	645,779	3,093,082
Accounts receivable, net of allowance for doubtful accounts	825,877	425
Federal and state grants receivable	1,176,694	—
Prepaid expenses	51,470	—
Total Current Assets	5,074,497	4,043,470
Noncurrent Assets		
Restricted investments	339,258	—
Perkins Loans	96,106	—
Capital assets, net of accumulated depreciation	25,768,835	—
Total Noncurrent Assets	26,204,199	—
Total Assets	31,278,696	4,043,470
Deferred Outflows		
Deferred cost on lease restructuring	124,780	—
Deferred cost related to pensions	1,540,236	—
Total Deferred Outflows	1,665,016	—
Liabilities		
Current Liabilities		
Accounts payable	1,134,403	253
Accrued liabilities	179,963	—
Accrued interest	31,923	—
Accrued compensated absences	176,091	—
Unearned revenue	187,111	—
Deposits held in custody for others	93,867	—
Current portion of long-term debt	1,552,119	—
Total Current Liabilities	3,355,477	253
Noncurrent Liabilities, net of current portion		
Accrued compensated absences	153,661	—
Net OTRS Pension liability	12,171,485	—
Long-term debt	13,439,761	—
Total Noncurrent Liabilities	25,764,907	—
Total Liabilities	29,120,384	253
Deferred Inflows		
Deferred gain on lease restructuring	226,970	—
Deferred amounts related to pension	3,146,329	—
Total Deferred Inflows	3,373,299	—
Net Position		
Net, investments in capital assets	11,853,283	—
Nonexpendable for Scholarships	—	2,004,368
Restricted expendable for	—	—
Debt service	435,363	—
Scholarships	—	2,170,831
Grants	1,822,473	—
Unrestricted	(13,661,090)	(131,982)
Total Net Position	\$ 450,029	\$ 4,043,217



See Notes to Financial Statements

Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Statements of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2015

	Eastern Oklahoma State College	Eastern Oklahoma State College Development Foundation
Operating Revenues		
Tuition and fees, net	\$ 2,446,452	—
Federal grants and contracts	3,056,208	—
State and private grants and contracts	1,096,356	—
Sales and services of auxiliary enterprise, net	1,544,588	—
Other operating revenues	<u>96,807</u>	<u>125,340</u>
Total Operating Revenues	<u>8,240,411</u>	<u>125,340</u>
Operating Expenses		
Compensation and benefits	10,771,751	—
Contractual services	1,569,672	—
Supplies and materials	2,255,742	—
Scholarships and fellowships	1,769,833	201,125
Communications	144,253	—
Depreciation	764,808	—
Utilities	672,931	—
Support to University	—	84,558
Other	<u>1,379,657</u>	<u>120,829</u>
Total Operating Expenses	<u>19,328,647</u>	<u>406,512</u>
Operating Loss	<u>(11,088,236)</u>	<u>(281,172)</u>
Non-operating Revenues (Expenses)		
State appropriations	6,686,042	—
Federal and state grants	4,865,619	—
Contributions & other receipts	—	363,722
OTRS on-behalf contributions	669,233	—
Investment income	18,699	58,356
Interest on capital asset-related debt	<u>(794,684)</u>	<u>—</u>
Net Non-operating Revenues	<u>11,444,909</u>	<u>422,078</u>
Income Before Other Revenues, Expenses, Gains, Losses and Transfers	356,673	140,906
State appropriations restricted for capital purposes	436,941	—
OCIA on-behalf state appropriations	<u>1,040,048</u>	<u>—</u>
Change in Net Position	<u>1,833,662</u>	<u>140,906</u>
Net Position, Beginning of Year	13,283,393	3,902,311
Adjustment to Net Position for Adoption of New Accounting Principal	<u>(14,667,026)</u>	—
Net Position, Beginning of Year, Restated	<u>(1,383,633)</u>	<u>3,902,311</u>
Net Position, at End of Year	<u>\$ 450,029</u>	<u>\$ 4,043,217</u>



Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Statements of Cash Flows
Year Ended June 30, 2015

	Eastern Oklahoma State College	Eastern Oklahoma State College Development Foundation
Cash Flows from Operating Activities		
Tuition and fees	\$ 1,940,205	—
Grants and contracts	3,438,152	—
Auxiliary enterprises sales and services	1,544,586	—
Payments to suppliers	(7,190,516)	(347,494)
Payments to employees	(10,914,115)	—
Other operating receipts	96,807	65,340
Net Cash Used in Operating Activities	(11,084,879)	(282,154)
Cash Flows from Non-capital Financing Activities		
State appropriations	6,686,042	—
Non-operating grants	4,865,619	—
Contributions & other receipts	—	363,722
Net Cash Provided by Noncapital Financing Activities	11,551,661	363,722
Cash Flows from Capital and Related Financing Activities		
Purchases of capital assets	(1,418,032)	—
Principal paid on capital leases and bonds	(724,353)	—
Interest paid on capital leases and bonds	(368,496)	—
Purchase of investments	—	(1,022,302)
Proceeds from sale of investments	—	1,352,966
Receipts from College	—	—
Capital appropriations - state	436,941	—
Net Cash used in capital and related financing activities	(2,073,940)	330,664
Cash Flows from Investing Activities		
Interest received on investments	18,699	45,337
Net Cash Provided by Investing Activities	18,699	45,337
Net Increase in Cash and Cash Equivalents	(1,588,459)	457,569
Cash and Cash Equivalents, Beginning of Year	4,948,173	492,394
Cash and Cash Equivalents, End of Year	\$ 3,359,714	\$ 949,963



Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Statements of Cash Flows
Year Ended June 30, 2015

(Continued)

	Eastern Oklahoma State College	Eastern Oklahoma State College Development Foundation
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (11,088,236)	\$ (281,172)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation expense	764,808	—
Net loss on disposal of fixed assets	—	—
Provision for loan losses	—	—
State of Oklahoma on-behalf contributions to teachers' retirement system	418,940	—
Changes in net assets and liabilities		
Student accounts receivables	(512,360)	—
Other receivables	(721,703)	—
Other assets	2,701	—
Prepaid expenses	(5,064)	—
Compensated absences	11,241	—
Accounts payable and other accrued liabilities	688,855	(982)
Unearned revenue	(4,907)	—
Room deposits payable	—	—
Net pension liability	(3,785,483)	—
Deferred inflows related to pensions	<u>3,146,329</u>	<u>—</u>
Net Cash Used in Operating Activities	<u>\$ (11,084,879)</u>	<u>\$ (282,154)</u>
Noncash Investing, Noncapital Financing and Capital and Related Financing Activities		
Principal and interest on capital debt paid by state agency on behalf of the College	<u>\$ 669,233</u>	<u>\$ —</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position		
Current Assets		
Cash and cash equivalents	\$3,020,456	\$949,963
Noncurrent assets		
Restricted cash and cash equivalents	<u>339,258</u>	<u>—</u>
	<u>\$ 3,359,714</u>	<u>\$ 949,963</u>



Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2015

Note 1: Summary of Significant Accounting Policies

Nature of Operations

Eastern Oklahoma State College (the "College") is a two-year, state supported College operating under the jurisdiction of the Board of Regents of Eastern Oklahoma State College (the Board of Regents) and the Oklahoma State Regents for Higher Education. The College is a component unit of the State of Oklahoma and is included in the general-purpose financial statements of the State of Oklahoma. The College has two primary campuses located in Wilburton and in McAlester.

Reporting Entity

The financial reporting entity, as defined by Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, and as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete.

The Eastern Oklahoma State College Foundation, Inc. (the "Foundation") is reported as legally separate, tax-exempt component unit of the College. The Foundation is organized for the purpose of receiving and administering gifts intended for the College. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests, is restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the College, the Foundation is considered a component unit of the College and is discretely presented in the College's financial statements.

The Foundation is a private nonprofit organizations that report under the Financial Accounting Standards Board ("FASB") standards over accounting for Not-for-Profit Organizations. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.



Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2015

Note 1: Summary of Significant Accounting Policies (Continued)

Basis of Accounting

For financial reporting purposes, the College is considered a special-purpose government engaged only in business-type activities. Accordingly, the College's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

The College has the option to apply all Financial Accounting Standards Board ("FASB") pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The College has elected to not apply FASB pronouncements issued after the applicable date.

Cash Equivalents

For purposes of the statements of cash flows, the College considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through the State Treasurer's Cash Management Program are considered cash equivalents.

Noncurrent Cash and Investments

Cash and investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, make long-term student loans, or to purchase capital or other noncurrent assets are classified as noncurrent assets in the statement of net position.

Deposits and Investments

The College accounts for its investments at fair value, as determined by quoted market prices, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, the College has disclosed its deposit and investment policies related to the risks identified in GASB Statement No. 40. Changes in unrealized gain (loss) on the carrying value of the investments are reported as a component of investment income in the statement of revenues, expenses, and changes in net assets.

Accounts Receivable and Other Receivables

Accounts receivable consists of tuition and fee charges to students and to auxiliary enterprise services provided to students, faculty and staff, the majority of each residing in the State of Oklahoma. Student accounts receivable are carried at the unpaid balance of the original amount billed to students and student loans receivable are carried at the amount of unpaid principal. Both receivables are less an estimate made for doubtful accounts based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Student accounts are written off for financial reporting purposes when deemed uncollectible. Recoveries of student accounts receivable previously written off are recorded when received.



Eastern Oklahoma State College
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Notes to Financial Statements
June 30, 2015

Note 1: Summary of Significant Accounting Policies (Continued)

Restricted Cash and Investments

Cash and investments that are externally restricted to make debt service payments, to maintain sinking or reserve funds, or to purchase capital or other noncurrent assets, are classified as restricted assets in the statement of net assets.

Capital assets

Capital assets are stated at cost, or fair value if acquired by gift, less accumulated depreciation. For equipment, the College's capitalization policy includes all items with a unit cost of \$500 or more and an estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense occurs. Livestock is stated at fair market value. Library books and livestock are not depreciated.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The following estimated useful lives are utilized by the College:

Land improvements	20 years
Buildings	45 years
Furniture, fixtures and equipment	5-20 years
Infrastructure	30-50 years
Library materials	15 years

Costs incurred during construction of long-lived assets are recorded as construction in progress and are not depreciated until placed in service.

Unearned Revenues

Unearned revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Unearned revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Compensated Absences

Employee vacation pay is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated absences in the statement of net assets, and as a component of compensation and benefit expense in the statement of revenues, expenses and changes in net position.

Noncurrent Liabilities

Noncurrent liabilities include (1) principal amounts of revenue bonds payable and capital lease obligations with contractual maturities greater than one year, and (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year.



Eastern Oklahoma State College
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Notes to Financial Statements
June 30, 2015

Note 1: Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

Net Assets

The College's net position is classified as follows:

Invested in capital assets, net of related debt

This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net position – expendable

Restricted expendable net assets include resources in which the College is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Restricted net position – nonexpendable

Nonexpendable restricted net position consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted net position

Unrestricted net position represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the College, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the College's policy is to first apply the expense towards restricted resources, and then towards unrestricted resources.

Income Taxes

The College, as a political subdivision of the State of Oklahoma, is exempt from all federal income taxes under Section 115(1) of the Internal Revenue Code, as amended. However, the College may be subject to income taxes on unrelated business income under Internal Revenue Code Section 511(a)(2)(B).



Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2015

Note 1: Summary of Significant Accounting Policies (Continued)

Classification of Revenues

The College has classified its revenues as either operating or non operating revenues according to the following criteria:

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of educational departments and of auxiliary enterprises, net of scholarship discounts and allowances, (3) federal, state and local grants and contracts.

Non-operating revenues: Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, student aid revenues, and other revenue sources that are defined as non-operating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, such as state appropriations and investment income.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or non operating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance.

Subsequent Events

Subsequent events have been evaluated through October 27, 2015, which is the date the financial statements were issued.



Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2015

Note 1: Summary of Significant Accounting Policies (Continued)

Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Oklahoma Teachers Retirement System (OTRS) and additions to/deductions from OTRS's fiduciary net position have been determined on the same basis as they are reported by OTRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Prior Period Adjustments

Beginning fund balances/net position were restated as of June 30, 2015 as follows:

	Fiscal Year 2015
Beginning net position, as previously reported	\$ 13,283,393
Implementation of GASB Statements 68 & 71	(14,667,025)
Beginning net positions, restated	\$ (1,383,632.00)

Note 2: Deposits and Investments

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The College's deposit policy for custodial credit risk is described as follows:



Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2015

Note 2: Deposits and Investments (Continued)

Custodial Credit Risk – Deposits (Continued)

Oklahoma Statutes require the State Treasurer to ensure that all state funds either be insured by Federal Deposit Insurance, collateralized by securities held by the cognizant Federal Reserve Bank, or invested in U.S. government obligations. The College's deposits with the State Treasurer are pooled with the funds of other State Agencies and then, in accordance with statutory limitations, placed in financial institutions or invested as the Treasurer may determine, in the State's name.

The College requires that balances on deposit with financial institutions be insured by Federal Deposit Insurance or collateralized by securities held by the cognizant Federal Reserve Bank, or invested in U.S. Government obligations, in the College's name.

The carrying amount and related bank balances of the College's deposits was \$3,020,456 at June 30, 2015.

Some deposits with the State Treasurer are placed in the State Treasurer's internal investment pool *OK INVEST*. *OK INVEST* pools the resources of all state funds and agencies and invests them in (a) U.S. treasury securities which are explicitly backed by the full faith and credit of the U.S. government; (b) U.S. agency securities which carry an implicit guarantee of the full faith and credit of the U.S. government; (c) money market mutual funds which participates in investments, either directly or indirectly, in securities issued by the U.S. treasury and/or agency and repurchase agreements relating to such securities; and (d) investments related to tri-party repurchase agreements which are collateralized at 102% and, whereby, the collateral is held by a third party in the name of the State Treasurer. Of funds on deposit with the State Treasurer, amounts invested in *OK INVEST* total \$930,894 at June 30, 2015.

For financial reporting purposes, deposits with the State Treasurer that are invested in *OK INVEST* are classified as cash equivalents. At June 30, 2015, the distribution of deposits in *OK INVEST* was as follows:

OK INVEST Portfolio	Cost	Market Value
U.S. Agency securities	\$ 370,744	\$ 370,343
Money market mutual funds	115,929	115,929
Certificates of deposit	18,683	18,683
Tri-party repurchase agreements	25,214	25,214
Mortgage backed agency securities	362,270	366,900
Municipal bonds	12,804	13,884
Foreign bonds	7,110	7,110
U.S. Treasury Obligations	10,688	12,831
TOTAL	\$ 923,442	\$ 930,894



Eastern Oklahoma State College
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Notes to Financial Statements
June 30, 2015

Note 2: Deposits and Investments (Continued)

Custodial Credit Risk – Deposits (Continued)

Agencies and funds that are considered to be part of the State's reporting entity in the State's Comprehensive Annual Financial Report are allowed to participate in OK INVEST. Oklahoma statutes and the State Treasurer establish the primary objectives and guidelines governing the investment of funds in OK INVEST. Safety, liquidity, and return on investment are the objectives which establish the framework for the day to day OK INVEST management with an emphasis on safety of the capital and the probable income to be derived and meeting the State and its funds and agencies' daily cash flow requirements. Guidelines in the Investment Policy address credit quality requirements, diversification percentages and specify the types and maturities of allowable investments, and the specifics regarding these policies can be found on the State Treasurer's website at <http://www.treasurer.state.ok.us/>. The State Treasurer, at his discretion, may further limit or restrict such investments on a day to day basis. OK INVEST includes a substantial investment in securities with an overnight maturity as well as in U.S. government securities with a maturity of up to three years. OK INVEST maintains an overall weighted average maturity of less than 270 days.

Participants in OK INVEST maintain an interest in its underlying investments and, accordingly, may be exposed to certain risks. As stated in the State Treasurer information statement, the main risks are interest rate risk, credit/default risk, liquidity risk, and U.S. government securities risk. Interest rate risk is the risk that during periods of rising interest rates, the yield and market value of the securities will tend to be lower than prevailing market rates; in periods of falling interest rates, the yield will tend to be higher. Credit/default risk is the risk that an issuer or guarantor of a security, or a bank or other financial institution that has entered into a repurchase agreement, may default on its payment obligations. Liquidity risk is the risk that OK INVEST will be unable to pay redemption proceeds within the stated time period because of unusual market conditions, an unusually high volume of redemption requests, or other reasons. U.S. Government securities risk is the risk that the U.S. government will not provide financial support to U.S. government agencies, instrumentalities or sponsored enterprises if it is not obligated to do so by law.

Various investment restrictions and limitations are enumerated in the State Treasurer's Investment Policy to mitigate those risks; however, any interest in OK INVEST is not insured or guaranteed by the State, the FDIC or any other government agency.

Investments

Investments are recorded at fair value, as determined by quoted market prices. At June 30, 2015, the College had recorded a restricted investment of \$339,258 on the statement of net assets. These investments are in U. S. Treasury securities or U.S. Treasury funds.

Investments in the State Treasurer's Internal Investment Pool are classified as cash equivalents in the accompanying statement of net assets. The underlying collateral for amounts invested with the State Treasurer's internal investment pool are U.S. Treasury obligations, U.S. Agency obligations, and Tri-Party repurchase agreements.



Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2015

Note 2: Deposits and Investments (Continued)

Interest Rate Risk

The College does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk

The College places no limit on the amount the College may invest in any one issuer. However, the majority of the investments are in mutual funds and investments guaranteed by the U.S. Government.

Note 3: Accounts Receivable

Accounts receivable consist of the following at June 30, 2015:

Student tuition and fees	\$ 2,814,021
Less: Allowance for doubtful accounts	<u>(1,988,144)</u>
Net accounts receivable	<u>\$ 825,877</u>

Note 4: Loans Receivable

Student loans made through the Federal Perkins Loan Program (the Program) comprise all of the loans receivable at June 30, 2015. There were no federal or institutional contributions to the program during 2015. The program provides for cancellation of a note at rates of 15% to 30% per year up to a maximum of 100% if the participant complies with certain provisions. The federal government reimburses the College's loan funds for amounts cancelled under these provisions.

As the College determines loans are uncollectible and not eligible for reimbursement by the federal government, the loans are written off and assigned to the U.S. Department of Education. The College has provided an allowance for uncollectible loans, which in management's opinion, is sufficient to absorb loans which will ultimately be written off. The allowance for uncollectible loans was \$101,000 at June 30, 2015.



Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2015

Note 5: Capital Assets

Capital asset activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Capital Assets not being depreciated:					
Land	\$ 1,238,008	\$ -	\$ -	\$ -	\$ 1,238,008
Livestock	250,700	-	-	-	250,700
Construction in progress	5,370	-	-	-	5,370
Total Capital Assets not being depreciated	<u>1,494,078</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,494,078</u>
Capital Assets being depreciated:					
Land Improvements	2,430,217	237,538	-	-	2,667,755
Buildings & Improvements	29,118,082	120,867	-	-	29,238,949
Equipment	10,216,793	1,172,085	-	-	11,388,878
Library materials	999,192	16,136	-	-	1,015,328
Infrastrure	777,410	-	-	-	777,410
Total Capital Assets being depreciated	<u>43,541,694</u>	<u>1,546,626</u>	<u>-</u>	<u>-</u>	<u>45,088,320</u>
Less: Accumulated Depreciation for:					
Land Improvements	(1,604,034)	(29,244)	-	-	(1,633,278)
Buildings & Improvements	(7,922,595)	(432,770)	-	-	(8,355,365)
Equipment	(8,929,508)	(298,937)	-	-	(9,228,445)
Library materials	(903,709)	(3,857)	-	-	(907,566)
Infrastrure	(688,909)	-	-	-	(688,909)
Total Accumulated Depreciation	<u>(20,048,755)</u>	<u>(764,808)</u>	<u>-</u>	<u>-</u>	<u>(20,813,563)</u>
Total Capital Assets being depreciation, net	<u>23,492,939</u>	<u>781,818</u>	<u>-</u>	<u>-</u>	<u>24,274,757</u>
Total Capital Assets	<u>24,987,017</u>	<u>781,818</u>	<u>-</u>	<u>-</u>	<u>25,768,835</u>
Capital Asset Summary					
Capital Assets not being depreciated	1,494,078	-	-	-	1,494,078
Capital Assets being depreciated	43,541,694	1,546,626	-	-	45,088,320
Total Capital Assets	<u>45,035,772</u>	<u>1,546,626</u>	<u>-</u>	<u>-</u>	<u>46,582,398</u>
Less: Accumulated Depreciation	<u>(20,048,755)</u>	<u>(764,808)</u>	<u>-</u>	<u>-</u>	<u>(20,813,563)</u>
Total Capital Assets, net	<u>\$ 24,987,017</u>	<u>\$ 781,818</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,768,835</u>



Eastern Oklahoma State College
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Notes to Financial Statements
June 30, 2015

Note 6: Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Capital Lease Obligations:					
OCIA Series 1999A/2004A	\$ 359,372	\$ -	\$ (359,372)	\$ -	\$ -
OCIA Series 2014B	-	322,503	(62,316)	260,187	57,406
OCIA Series 2005F	519,244	-	(253,549)	265,695	265,695
OCIA Series 2010A	1,908,844	-	-	1,908,844	126,072
OCIA Series 2010B	709,023	-	(413,165)	295,858	295,858
OCIA Series 2014A	3,853,467	-	-	3,853,467	258,351
ODFA Master Lease 2005A	1,908,333	-	(1,908,333)	-	-
ODFA Master Lease 2015B	-	1,689,000	-	1,689,000	-
ODFA Master Lease 2010A	311,917	-	(25,084)	286,833	26,000
ODFA Master Lease 2011A	4,814,417	-	(223,417)	4,591,000	228,583
	<u>14,384,617</u>	<u>2,011,503</u>	<u>(3,245,236)</u>	<u>13,150,884</u>	<u>1,257,965</u>
Other Long Term Debt					
1997 Revenue Bonds	350,000	-	(117,000)	233,000	125,000
2004 Revenue Bonds	1,295,000	-	(105,000)	1,190,000	110,000
Other capital leases	261,702	128,594	(112,882)	277,414	59,154
Bond premium	37,343	105,436	(2,197)	140,582	-
Compensated absences	329,531	178,763	(178,543)	329,531	176,091
	<u>2,273,576</u>	<u>412,793</u>	<u>(515,622)</u>	<u>2,170,527</u>	<u>470,245</u>
Total Long-term Liabilities	<u>16,658,193</u>	<u>2,424,296</u>	<u>(3,760,858)</u>	<u>15,321,411</u>	<u>1,728,210</u>

Capital Lease Obligations

Oklahoma Capital Improvement Authority Lease Obligations

In September 1999, the Oklahoma Capital Improvement Authority (OCIA) issued its OCIA Bond Issues, 1999 Series A, B, and C. Of the total bond indebtedness, the State Regents for Higher Education allocated \$1,000,000 to the College. Concurrently with the allocation, the College entered into an individual lease agreement with OCIA, representing the project being funded by the OCIA bonds.

In 2015, the OCIA issued bond series 2014B that refunded the 1999A Bonds. This Lease restructuring has resulted in a gain in restructuring of that has been recorded as a gain of \$36,868 on restructuring as a deferred outflow of resources that will be amortized over a period of 5 years. This unamortized amount of the deferred lease restructure gain at 6/30/15 was \$29,495. Lease principal and interest to OCIA totaling \$66,291 during the year ended 6/30/15 were made by the State of Oklahoma on behalf of the college. These on behalf payments have been recorded as OCIA on behalf state appropriations in the statement of revenues, expenses and changes in net assets.



Eastern Oklahoma State College
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Notes to Financial Statements
June 30, 2015

Note 6: Long-Term Liabilities (Continued)

Capital Lease Obligations (Continued)

Oklahoma Capital Improvement Authority Lease Obligations (Continued)

In 2005, the OCIA issued its State Facilities Revenue Bonds (Higher Education Project) Series 2005F. Of the total bond indebtedness, the State Regents allocated approximately \$7,671,000 to the College. Concurrently with the allocation, the College entered into a lease agreement with OCIA for capital improvements being funded by the OCIA bonds. The lease agreement provides for the College to make specified monthly payments to OCIA over the respective terms of the agreement, which is for approximately 25 years. Lease principal and interest payments to OCIA totaling \$265,489 during the year ended June 30, 2015, were made by the State of Oklahoma on behalf of the College. These on-behalf payments have been recorded as OCIA on-behalf state appropriations in the statement of revenues, expenses and changes in net assets.

In 2011, the OCIA issued Bond Series 2010A and 2010B to partially refund the Series 2005F Revenue Bonds. The advance partial refunding was to provide budgetary relief for fiscal years 2011 and 2012 by extending and restructuring the debt service. As a result, the total liability of the remaining 2005F bonds combined with the new 2010A and 2010B bond issues will be more than the original outstanding liability for the 2005F bonds. Consequently, the lease agreement with OCIA was automatically restructured to secure the new bond issues. This lease restructuring has extended certain principal payments into the future, resulting in a charge or cost on restructuring that has been recorded as a charge of \$471,086 on restructuring as a deferred cost that will be amortized over a period of 6 years, beginning in fiscal year 2012. The unamortized amount of the deferred lease restructuring cost at June 30, 2015 was \$117,907. Lease principal and interest payments to OCIA totaling \$511,937 during the year ended June 30, 2015, were made by the State of Oklahoma on behalf of the College. These on-behalf payments have been recorded as OCIA on-behalf state appropriations in the statement of revenues, expenses and changes in net assets.

In 2014, the OCIA issued bond series 2014A that refunded a significant portion of the 2005F bonds. Consequently, the amortization of the 2005F bond issue will end in 2016. The lease agreement will no longer secure the 2005F bond issue but will now act as security for the 2014A bond issue over the term of the lease through the year 2031. This lease restructuring has resulted in a gain on restructuring that has been recorded as a gain of \$213,841 on restructuring as a deferred inflow of resources that will be amortized over a period of 18 years. The unamortized amount of the deferred lease restructuring gain at June 30, 2015 was \$197,476. Lease principal and interest payments to OCIA totaling \$190,620 during the year ended June 30, 2015, were made by the State of Oklahoma on behalf of the College. These on-behalf payments have been recorded as OCIA on-behalf state appropriations in the statement of revenues, expenses and changes in net assets.



Eastern Oklahoma State College
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Notes to Financial Statements
June 30, 2015

Note 6: Long-Term Liabilities (Continued)

Capital Lease Obligations (Continued)

Oklahoma Capital Improvement Authority Lease Obligations (Continued)

The College's property under the OCIA capital leases is summarized as follows:

	<u>Building</u>	<u>Equipment</u>	<u>Total</u>
Cost	\$7,220,809	\$146,489	\$7,367,298
Less: accumulated depreciation	(798,862)		(798,862)
	<u>\$6,421,947</u>	<u>\$146,489</u>	<u>\$6,568,436</u>

Future minimum lease payments under the College's obligations to the OCIA for the year ended June 30, 2015, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Years Ending June 30:			
2016	\$ 1,018,275	\$ 287,822	\$ 1,306,097
2017	471,261	259,732	730,993
2018	766,114	242,975	1,009,089
2019	777,382	209,569	986,951
2020	-	173,895	173,895
2021-2025	1,420,166	755,535	2,175,701
2026-2030	2,162,680	324,419	2,487,099
2031-2034	-	-	-
Total	<u>\$ 6,615,878</u>	<u>\$ 2,253,947</u>	<u>\$ 8,869,825</u>

Oklahoma Development Finance Authority Lease Obligations

In May 2005, the College entered into a 20 year lease agreement with the Oklahoma Development Finance Authority (ODFA) and the State Regents as beneficiary of a portion of the proceeds from the Oklahoma Development Finance Authority State Regents for Higher Education Master Lease Revenue Bonds, Series 2005A. The College financed \$3,005,000 to upgrade the College's energy management systems.



Eastern Oklahoma State College
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Notes to Financial Statements
June 30, 2015

Note 6: Long-Term Liabilities (Continued)

Capital Lease Obligations (Continued)

Oklahoma Development Finance Authority Lease Obligations (Continued)

The lease agreement with ODFA provides for monthly payments to ODFA ranging from \$17,187 to \$17,292 for 20 years through May 15, 2025, or until the ODFA bonds and related interest are paid. The monthly lease payments were expected to be funded through energy savings realized from the project. Lease principal and interest payments to ODFA totaling \$220,005 during the year ended June 30, 2015.

In September 2010, the College entered into a 15 year lease agreement with the Oklahoma Development Finance Authority (ODFA) and the State Regents as beneficiary of a portion of the proceeds from the Oklahoma Development Finance Authority State Regents for Higher Education Real Property Master Lease Revenue Bonds, Series 2010A. The College financed \$401,000 to remodeled apartments on the College's campus.

The lease agreement with ODFA provides for monthly payments to ODFA ranging from \$2,793 to \$3,177 for 15 years through May 15, 2025, or until the ODFA bonds and related interest are paid. The monthly lease payments are funded through additional apartment rent realized after the project was completed. Lease principal and interest payments to ODFA totaling \$33,771 during the year ended June 30, 2015.

In May 2011, the College entered into a 15-year lease agreement with the Oklahoma Development Finance Authority (ODFA) and the State Regents as a beneficiary of a portion of the proceeds from the Oklahoma Development Finance Authority State Regents for Higher Education Master Lease Revenue Bonds, Series 2011A. The College received a net amount of \$550,000 of the proceeds for improvements to the College's equipment.

In May 2011, the College entered into a 3 year lease agreement with the Oklahoma Development Finance Authority (ODFA) and the State Regents as beneficiary of a portion of the proceeds from the Oklahoma Development Finance Authority Oklahoma State Regents for Higher Education Master Equipment Lease Revenue Bonds, Series 2011A. The College financed \$50,000, for furniture in the College's dorm.

In 2011, the College entered into a 20 year lease agreement with the Oklahoma Development Finance Authority (ODFA) and the State Regents as a beneficiary of a portion of the proceeds from the ODFA State Regents for Higher Education Real Property Master Lease Revenue Bonds, Series 2011A. The College Financed \$4,900,000, for the building of Regents Courts (Apartment Style Dorms) and the remodeling of the first floor of the Library, Gunning, Baker and a portion of Pratt.



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Note 6: Long-Term Liabilities (Continued)

Capital Lease Obligations (Continued)

Oklahoma Development Finance Authority Lease Obligations (Continued)

Lease payments made by the College are forwarded to the trustee bank by the State Regents for future principal and interest payments on the Master Lease bonds. The ODFA deposits the lease payments into an interest-bearing sinking fund and may use the interest earnings to reduce the College's future lease payments. Lease principal and interest payments to ODFA totaling \$416,828 during the year ended June 30, 2015.

The College's property under the ODFA capital leases is summarized as follows:

	Building	Equipment	Total
Cost	\$1,428,220	\$ 263,890	\$ 1,692,110
Less: accumulated depreciation	(957,039)	(68,215)	(1,025,254)
	<u>\$ 471,181</u>	<u>\$ 195,675</u>	<u>\$ 666,856</u>

Future minimum lease payments under the College's obligations to the ODFA for the year ended June 30, 2015, are as follows:

Years Ending June 30:	Principal	Interest	Total
2016	\$ 407,417	\$ 245,977	\$ 653,394
2017	415,750	237,905	653,655
2018	425,167	227,292	652,459
2019	438,917	216,750	655,667
2020	450,666	202,845	653,511
2021-2025	2,537,000	731,819	3,268,819
2026-2030	1,587,500	287,105	1,874,605
2031	320,833	14,438	335,271
Total	<u>\$ 6,583,250</u>	<u>\$ 2,164,131</u>	<u>\$ 8,747,381</u>



Eastern Oklahoma State College
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Notes to Financial Statements
June 30, 2015

Note 6: Long-Term Liabilities (Continued)

Capital Lease Obligations (Continued)

Student Facilities Revenue Bonds

The Board of Regents authorized the College to issue the Student Facilities Revenue Bonds, Series 1997 (the "Series 1997 Bonds") dated December 1, 1997, in the amounts of \$1,600,000. The Series 1997 Bonds mature May 1 of each year beginning June 1, 1997 through June 1, 2017, in annual amounts varying from \$40,000 to \$130,000, interest rates ranging from 5.05% to 10%. The remaining balance outstanding was \$233,000 at June 30, 2015. The Series 1997 Bonds are payable from pledged revenues derived from a student union fee and other ancillary services, and the reserve account held by the bond trustees. The College paid \$117,000 and \$22,570 in related principal and interest on these bonds during 2015, respectively.

The Board of Regents authorized the College to issue the Student Facilities Revenue Bonds, Series 2004 (the "Series 2004 Bonds") dated May 1, 2004, in the amounts of \$2,200,000. The Series 2004 Bonds mature June 1 of each year beginning June 1, 2005 through June 1, 2024, in annual amounts varying from \$85,000 to \$160,000, interest rates ranging from 2.40% to 4.45%. The remaining balance outstanding was \$1,190,000 at June 30, 2015. The Series 1997 Bonds are payable from pledged revenues derived from a student union fee and other ancillary services, and the reserve account held by the bond trustees. The College paid \$105,000 and \$55,615 in related principal and interest on these bonds during 2015, respectively.

Future minimum lease payments under the College's obligations to the Revenue Bonds for the year ended June 30, 2015, are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	233,000	65,584	298,584
2017	225,000	53,937	278,937
2018	120,000	42,085	162,085
2019	125,000	37,165	162,165
2020	130,000	32,040	162,040
2021-2024	<u>590,000</u>	<u>67,418</u>	<u>657,418</u>
	<u>\$1,423,000</u>	<u>\$ 298,229</u>	<u>\$1,721,229</u>

The trust agreements for the Revenue Bonds Series provide that bond proceeds and pledged revenues be used to establish various bond sinking funds and reserve funds (see Note 2).



Eastern Oklahoma State College
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Notes to Financial Statements
June 30, 2015

Note 6: Long-Term Liabilities (Continued)

Capital Lease Obligations (Continued)

Other Capital Leases

During 2010, the College entered into a lease purchase agreement with Government Capital Corporation in the amount of \$74,200. Government Capital Corporation later assigned its rights to Vision Bank. This agreement was entered into to provide lease purchase financing for a 1999 Blue Bird LTC40 47 Passenger Coach. The College uses this Bus to transport its students to and from college sponsored activities. The lease agreement provides for yearly payments to Vision Bank of \$16,864 for 5 years through September 15, 2014. During 2015, the College made \$12,956 and \$772 in principal and interest payments, respectively.

During 2011, the College entered into a lease purchase agreement with Government Capital Corporation in the amount of \$249,583. Government Capital Corporation later assigned its rights to Security State Bank of Wewoka. This agreement was entered into to provide lease purchase financing for computer hardware and software. The College uses this to upgrade our computer network, which has allowed us to expand our online class capabilities. The lease agreement provides for yearly payments to Security State Bank of \$69,242 for 4 years through October 15, 2014. During 2015, the College made \$69,952 and \$3,290 in principal and interest payments, respectively.

During 2012, the College entered into a lease purchase agreement with Government Capital Corporation in the amount of \$247,750. Government Capital Corporation later assigned its rights to Security State Bank of Wewoka. This agreement was entered into to provide lease purchase financing for lights in the baseball stadium. The lease agreement provides for yearly payments to Security State Bank of \$40,520 for 7 years through March 15, 2019. During 2015, the College made \$34,110 and \$6,410 in principal and interest payments, respectively.

During 2015, the college entered into a lease purchase agreement with Government Capital Corporation in the amount of \$128,594. GCCC later assigned its rights to Central Trust Bank of Jefferson City, Missouri. This agreement was entered into to provide lease purchase financing for the student activity bus (2015 Ford F750/Glaval Concorde II). The College uses this bus to transport students to and from college sponsored activities. The lease agreement provides for yearly payments to Central Trust Bank of \$28,848 for five years through August 15, 2019. The College will make its first payment in 2016

The College's property under the other capital leases is summarized as follows:

	Equipment
Cost	\$459,877
Less: accumulated depreciation	(223,008)
	\$ 236,869



Eastern Oklahoma State College
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Notes to Financial Statements
June 30, 2015

Note 6: Long-Term Liabilities (Continued)

Capital Lease Obligations (Continued)

Other Capital Leases (Continued)

Future minimum lease payments under the College's obligations with other capital leases for the year ended June 30, 2015, are as follows:

Years Ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 59,154	\$ 10,213	\$ 69,367
2017	61,214	8,154	69,368
2018	63,478	5,890	69,368
2019	65,826	3,541	69,367
2020	<u>27,741</u>	<u>1,106</u>	<u>28,847</u>
Total	<u>\$ 277,413</u>	<u>\$ 28,904</u>	<u>\$ 306,317</u>

Note 7: Retirement Plans

Substantially all of the College's academic and nonacademic personnel are covered by the Oklahoma Teachers' Retirement System (the OTRS), which is a State of Oklahoma public employee retirement system. Certain eligible employees also participate in the Supplemental Retirement Plan, a single-employer defined benefit plan. The College does not maintain the accounting records, hold the investments for, or administer the OTRS plan.

Oklahoma Teachers' Retirement System

Plan Description

The College as the employer, participates in the Oklahoma Teachers Retirement Plan—a cost-sharing multiple-employer defined benefit pension plan administered by the Oklahoma Teachers Retirement System (OTRS). Title 70 O. S. Sec. 17-105 defines all retirement benefits. The authority to establish and amend benefit provisions rests with the State Legislature. OTRS issues a publicly available financial report that can be obtained at www.ok.gov/OTRS.



Eastern Oklahoma State College
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Notes to Financial Statements
June 30, 2015

Note 7: Retirement Plans (Continued)

Oklahoma Teachers' Retirement System (Continued)

Benefits provided - OTRS provides retirement, disability, and death benefits to members of the plan. Benefit provisions include:

- Members become 100% vested in retirement benefits earned to date after five years of credited Oklahoma service. Members who joined the System on June 30, 1992 or prior are eligible to retire at maximum benefits when age and years of creditable service total 80. Members joining the System after June 30, 1992 are eligible for maximum benefits when their age and years of creditable service total 90. Members whose age and service do not equal the eligible limit may receive reduced benefits as early as age 55, and at age 62 receive unreduced benefits based on their years of service. The maximum retirement benefit is equal to 2% of final compensation for each year of credited service.
- Final compensation for members who joined the System prior to July 1, 1992 is defined as the average salary for the three highest years of compensation. Final compensation for members joining the System after June 30, 1992 is defined as the average of the highest five consecutive years of annual compensation in which contributions have been made. The final average compensation is limited for service credit accumulated prior to July 1, 1995 to \$40,000 or \$25,000, depending on the member's election. Monthly benefits are 1/12 of this amount. Service credits accumulated after June 30, 1995 are calculated based on each member's final average compensation, except for certain employees of the two comprehensive universities. Upon the death of a member who has not yet retired, the designated beneficiary shall receive the member's total contributions plus 100% of interest earned through the end of the fiscal year, with interest rates varying based on time of service. A surviving spouse of a qualified member may elect to receive, in lieu of the aforementioned benefits, the retirement benefit the member was entitled to at the time of death as provided under the Joint Survivor Benefit Option.
- Upon the death of a retired member, the System will pay \$5,000 to the designated beneficiary, in addition to the benefits provided for the retirement option selected by the member.
- A member is eligible for disability benefits after ten years of credited Oklahoma service. The disability benefit is equal to 2% of final average compensation for the applicable years of credited service. • Upon separation from the System, members' contributions are refundable with interest based on certain restrictions provided in the plan, or by the IRC.
- Members may elect to make additional contributions to a tax-sheltered annuity program up to the exclusion allowance provided under the IRC under Code Section 403(b).



Eastern Oklahoma State College
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Notes to Financial Statements
June 30, 2015

Note 7: Retirement Plans (Continued)

Oklahoma Teachers' Retirement System (Continued)

At the election of each eligible member initiating receipt of retirement benefits, the System remits between \$100 and \$105 per month per eligible retiree to HealthSmart, depending on the members' years of service during 2014.

Contributions - The contributions requirements of the Plan are at an established rate determine by Oklahoma Statute, amended by the Oklahoma Legislature, and are not based on actuarial calculations. Employees are required to contribute 7% percent of their annual pay. Participating employers are required to contribute 9.5% of the employees' annual pay and an additional 8.25% for any employees' salaries covered by federal funds. Contributions to the pension plan from the College were \$1,540,236, which includes the employer "pick-up" of employee contributions. The State of Oklahoma also made on-behalf contributions to OTRS, of which \$418,940 was recognized by the College; these on-behalf payments did not meet the criteria of a special funding situation.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2015, the College reported a liability of \$12,171,485 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The College's proportion of the net pension liability was based on the College's contributions received by the pension plan relative to the total contributions received by pension plan for all participating employers as of June 30, 2014. Based upon this information, the College's proportion was .2262 percent.

For the year ended June 30, 2015, the College recognized pension expense of \$1,320,022. At June 30, 2015, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	—	200,622
Net difference between projected and actual earnings on pension plan investments	—	2,945,707
College contributions subsequent to the measurement date	1,540,236	—
Total	1,540,236	3,146,329



Eastern Oklahoma State College
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Notes to Financial Statements
June 30, 2015

Note 7: Retirement Plans (Continued)

Oklahoma Teachers' Retirement System (Continued)

The \$1,540,236 reported as deferred outflows of resources related to pensions resulting from College contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2016	\$	(774,138)
2017	\$	(774,138)
2018	\$	(774,138)
2019	\$	(774,137)
2020	\$	(37,711)
Thereafter	\$	(12,067)

Actuarial Assumptions- The total pension liability as of June 30, 2014, was determined based on an actuarial valuation prepared as if June 30, 2014 using the following actuarial assumptions:

- Actuarial Cost Method - Entry Age
- Amortization Method - Level Percentage of Payroll
- Inflation - 3.00%
- Salary Increases - Composed of 3.00% inflation, plus 1.00% productivity increase rate, plus step-rate promotional increases for members with less than 25 years of service.
- Investment Rate of Return - 8.00%
- Retirement Age - Experience-based table of rates based on age, service, and gender. Adopted by the Board in September 2010 in conjunction with the five year experience study for the period ending June 30, 2009.
- Mortality - RP-2000 Combined Mortality Table, projected to 2016 using Scale AA, multiplied by 90% for males and 80% for females.

The actuarial assumptions used in the July 1, 2014, valuation were based on the results of an actuarial experience study for the period July 2007 to June 2011.



Eastern Oklahoma State College
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Notes to Financial Statements
June 30, 2015

Note 7: Retirement Plans (Continued)

Oklahoma Teachers' Retirement System (Continued)

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Domestic All Cap Equity*	7.0%	6.7%
Domestic Large Cap Equity	10.0%	6.2%
Domestic Mid Cap Equity	13.0%	6.9%
Domestic Small Cap Equity	10.0%	7.0%
International Large Cap Equity	11.5%	7.0%
International Small Cap Equity	6.0%	7.0%
Core Plus Fixed Income	17.5%	2.1%
High-yield Fixed Income	6.0%	4.5%
Private Equity	5.0%	7.9%
Real Estate**	7.0%	5.5%
Master Limited Partnerships	7.0%	7.9%
Total	100.00%	

* The Domestic All Cap Equity total expected return is a combination of 3 rates - US Large cap, US Mid Cap and US Small cap

** The Real Estate total expected return is a combination of US Direct Real Estate (unlevered) and US Value added Real Estate (unlevered)

Discount Rate- A single discount rate of 8.00% was used to measure the total pension liability as of June 30, 2013 and June 30, 2014. This single discount rate was based solely on the expected rate of return on pension plan investments of 8.00%. Based on the stated assumptions and the projection of cash flows, the pension plan's fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The projection of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels and remain a level percentage of payrolls. The projection of cash flows also assumed that the State's contribution plus the matching contributions will remain a constant percent of projected member payroll based on the past five years of actual contributions.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate-The following presents the net pension liability of the employers calculated using the discount rate of 8%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (7%) or 1-percentage-point higher (9%) than the current rate:



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Notes to Financial Statements
June 30, 2015

Note 7: Retirement Plans (Continued)

Oklahoma Teachers' Retirement System (Continued)

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Employers' net pension liability	\$ 17,099,340	\$ 12,171,485	\$ 8,012,207

Pension plan fiduciary net position - Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report of the OTRS; which can be located at www.ok.gov/OTRS .

Supplemental Retirement Benefit Plan (SRB)

Plan description

In 1995 the College, through its board of regents, entered in to an agreement to provide supplemental retirement benefits to its then president. The agreement called for the College to establish an annuity for the former president which would be paid monthly from his retirement date until death, with up to 3.5% in annual cost of living increases allowable. The annuity account was opened in 1995 with a \$154,000 first time payment, the amount projected as necessary to fund the supplemental retirement benefits over the former president's lifetime

In 2000 the former president retired and began to draw on the annuity established in 1995. In late 2009, the College was informed that the annuity account was near insolvency and that supplemental payments would be necessary to fulfill the commitment for the benefits of the former president, who is now 70 years of age. After determining it has a legal obligation to do so, the College began making supplemental payments to this account. The College paid \$30,000 to this account in the year ended June 30, 2011, and will pay approximately \$30,000 annually beginning July 1, 2011 to this account and will continue to do so over the lifetime of the former president. The College has not recorded any future obligation for these benefits in its statement of net assets.



Eastern Oklahoma State College
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June 30, 2015

Note 8: Related Party Transactions

The Foundation is a tax-exempt organization whose objective is the betterment of the College and its related activities. The College is the ultimate beneficiary of the Foundation. The College has entered into a written agreement with the Foundation whereby the College agrees to provide certain administrative services to the Foundation in exchange for scholarships to College students totaling approximately \$200,000 for the year ended June 30, 2015.

Note 9: Commitments and Contingencies

The College participates in a number of federally assisted grant and contract programs. These programs are subject to financial and compliance audits by the grantors or their representatives. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. The amount for expenditures that may be disallowed by the granting agencies cannot be determined at this time, although it is believed by the College that the amount, if any, would not be significant.

On March 24-28, 2014, the Department of Education (DOE) performed an onsite Title IV Program Review. On August 21, 2015 the College received the Final Program Review Determination Letter. It instructed the College to repay \$1,086,609 of Title IV funds and related interest. The College filed an appeal of the Final Program Review Determination on October 12, 2015. At this time, the College has no way of estimating the result of that appeal, so the full amount of the final determination has been accrued on the College record as of June 30, 2015.

Through June 30, 2010, the College participated in the Federal Family Education Loan Program (the "FFEL Program"), which included the Federal Stafford Loan Program and Federal Parents Loans for Undergraduate Students Program. The FFEL Program did not require the College to draw down cash; however, the College was required to perform certain administrative functions under the FFEL Program. Failure to perform such functions may have required the College to reimburse the loan guarantee agencies.

In July 2011, the College began participating in the Federal Direct Student Loan Program (Direct Lending Program). For the year ended June 30, 2015, approximately \$3,282,000 of Direct Lending Program loans was provided to College students.

During the year ended June 30, 2015, the U.S. Department of Education (ED) began a program review of the College's compliance with Student Financial Aid grant requirements. While ED has issued a preliminary report, to which the College has responded, a final determination letter has not been issued.

During the course of ordinary business, the College may be subjected to various lawsuits and civil action claims. There were no pending lawsuits to claims against the College at June 30, 2015, that management believes would result in a material loss to the College in the event of an adverse outcome.



Eastern Oklahoma State College
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Notes to Financial Statements
June 30, 2015

Note 10: Risk Management

The College is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruptions; errors and omission; employee injuries and illnesses; natural disasters; and employee health, life, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than torts, property, and workers' compensation. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The College, along with other state agencies and political subdivisions, participates in the State of Oklahoma Risk Management Program public entity risk pool currently operating as a common risk management and insurance program for its members. The College pays annual premiums to the pool for its tort, property, and liability insurance coverage. The Oklahoma Risk Management pool's governing agreement specifies that the pool will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of specified stop-loss amounts.

The College also participates in the College Association of Liability Management (CALM) Workers' Compensation Plan for its workers' compensation coverage. CALM is an interlocal cooperative act agency that was organized to provide workers' compensation insurance coverage for participating colleges and universities through CompSource. CALM is a political subdivision of the State of Oklahoma and is governed by a board of trustees elected from members of the participating colleges and universities

Note 11: Eastern Oklahoma State College Foundation, Inc.

Note 1: Summary of Significant Accounting Policies

Organization

Eastern Oklahoma State College Development Foundation, Inc. (the Foundation) is a nonprofit organization incorporated in the State of Oklahoma in 1973 and operated to receive and administer gifts for the sole benefit of Eastern Oklahoma State College (the College).

Distribution of amounts is subject to the approval of the Board of Trustees or the appropriate fund sponsor and the availability of monies. Accordingly, the accompanying financial statements reflect only transactions for which appropriate approvals have been received by the Foundation as of the financial reporting date.

Contributions

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.



Eastern Oklahoma State College
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Notes to Financial Statements
June 30, 2015

Note 11: Eastern Oklahoma State College Foundation, Inc. (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

Net Assets

The financial statements of the Foundation have been prepared on the accrual basis in accordance with generally accepted accounting principles.

Net assets are classified based on the existence or absence of donor-imposed restrictions as follows:

Unrestricted – Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees.

Temporarily Restricted – Net assets whose use by the Foundation is subject to donor-imposed restrictions that can be fulfilled by actions of the Foundation pursuant to those restrictions or that expire by the passage of time.

Permanently Restricted – Net assets subject to donor-imposed restrictions that they be maintained permanently by the Foundation. Such assets primarily include the Foundation's permanent endowment funds and irrevocable trusts held by others for the beneficial interest of the Foundation.

Cash and Cash Equivalents

The Foundation defines cash and cash equivalents to be all cash and certificates of deposit with original maturities of three months or less. Cash equivalents of \$492,394 and \$479,856 as of June 30, 2014 and 2013, respectively, were held in financial institutions.

Investments

Investments consist of marketable debt and equity securities and certificates of deposit with original maturities of more than three months. Investments are carried at fair value based on the quoted market prices of the underlying securities.

Tax Status

The Foundation is a nonprofit corporation and is an exempt organization as defined in Internal Revenue Code Section 501(c)(3). The Foundation has been classified as an organization that is not a private foundation under Section 509(a) of the Internal Revenue Code and qualified for deductible contributions under Section 170(b)(1)(A)(vi). The Foundation receives limited income that is unrelated to its exempt purpose and is taxable under the Internal Revenue Code.

Property and Equipment

Property and equipment are stated at cost or at estimated fair value at date of donation. The Foundation provides for depreciation using the straight-line method over the estimated useful lives of the related assets. Repairs and maintenance are expensed as incurred, whereas major improvements in excess of \$500 are capitalized.



Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2015

Note 11: Eastern Oklahoma State College Foundation, Inc. (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

Allocated Expenses

Expenses by function have been allocated among program and supporting services classifications on the basis of time records and on estimates made by the Foundation's management.

Concentrations of Credit Risk

Financial instruments, which potentially subject the Foundation to concentrations of credit risk, consist primarily of cash and cash equivalents, short-term investments and pledges receivable. The Foundation places its cash and certificates of deposit with high quality financial institutions. Pledges receivable consist of a large number of contributors throughout the state of Oklahoma. The Foundation provides an allowance for the estimated uncollectible portion of pledges receivable. The Foundation's management believes that the credit risk is adequately provided for to which it is exposed.

Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and disclosures in the notes thereto. Actual results could differ from those estimates.

Subsequent Events

Subsequent events have been evaluated through October 27, 2014, which is the date the financial statements were issued.

Note 2: Cash and Cash Equivalents

The Foundation maintains several bank accounts. The table below is designed to disclose the level of custody credit risk assumed by the Foundation based upon how its deposits were insured at June 30, 2015 and 2014 FDIC regulations state time and savings accounts are insured up to a \$250,000 maximum.

Category 1 – Insured by FDIC or collateralized with securities held by the Foundation or by its agent in its name.

Category 2 – Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the Foundation's name.

Category 3 – Uninsured and uncollateralized.



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Notes to Financial Statements
June 30, 2015

Note 11: Eastern Oklahoma State College Foundation, Inc. (Continued)

Note 2: Cash and Cash Equivalents (Continued)

Type of Deposits	Total Carrying Balance	Total Bank Balance	Custody Credit Risk Category		
			1	2	3
June 30, 2015					
Demand Deposits:					
Wilburton State Bank	\$ 525,982	\$ 528,914	\$ 250,000	\$ —	\$278,914
First National Bank	223,981	223,981	223,981		
Certificates of Deposit					
BancFirst	200,000	200,000	200,000	—	—
Totals	\$ 949,963	\$ 952,895	\$ 673,981	\$ —	\$ 278,914
June 30, 2014					
Demand Deposits:					
Wilburton State Bank	\$ 199,262	\$ 205,998	\$ 205,998	\$ —	\$ —
First National Bank	91,628	95,398	95,398		
Certificates of Deposit					
BancFirst	201,504	201,504	201,504	—	—
Totals	\$ 492,394	\$ 502,900	\$ 502,900	\$ —	\$ —

Note 3: Investments

Investment income consists of the following:

	2015	2014
Interest and dividend income	\$45,337	\$55,852
Realized gains and losses	322,797	180,289
Unrealized gains and losses	(309,778)	193,834
	<u>\$ 58,356</u>	<u>\$ 429,975</u>



Eastern Oklahoma State College
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Notes to Financial Statements
June 30, 2015

Note 11: Eastern Oklahoma State College Foundation, Inc. (Continued)

Note 3: Investments (Continued)

Investments consist of the following at June 30, 2015:

	<u>Cost</u>	<u>Fair Value</u>	<u>Carrying Value</u>
Investments			
Equity funds	\$654,219	\$654,510	\$654,510
Fixed income funds	347,785	344,094	344,094
Money market funds	23,673	23,673	23,673
Pooled Investment Fund	<u>1,913,254</u>	<u>2,070,805</u>	<u>2,070,805</u>
	<u>\$2,938,931</u>	<u>\$3,093,082</u>	<u>\$3,093,082</u>

Investments consist of the following at June 30, 2014:

	<u>Cost</u>	<u>Fair Value</u>	<u>Carrying Value</u>
Pooled investment fund	<u>\$2,882,462</u>	<u>\$3,409,657</u>	<u>\$3,409,657</u>

During the year ended 2009, the Foundation liquidated all investments and made an irrevocable gift to a community foundation organization. The community foundation organization maintains ownership and control over the invested assets and includes the Foundation's gift in a pooled investment fund. Funds placed with this organization cannot be returned to the Foundation without consent by a super majority of the community foundation organization's Board of Directors as well as a super majority of the Foundation's Board of Directors. Disbursements of the investment income generated from the gift can be made for designated purposes.

Note 4: Endowments

The Foundation endowments consist of approximately 140 individual funds established for a variety of purposes. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based upon the existence or absence of donor-imposed restrictions.



Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2015

Note 11: Eastern Oklahoma State College Foundation, Inc. (Continued)

Note 4: Endowments (Continued)

Interpretation of Relevant Law: In accordance with the requirements of FAS 117-1, and the Oklahoma Uniform Prudent Management of Institutional Funds Act (OUPMIFA), the Foundation will report the market value of an endowment as perpetual in nature. As a result, the Foundation classifies as permanently restricted (1) the original value of gifts donated to the endowment, (2) the original value of subsequent gifts donated to the endowment, (3) all realized and unrealized gains and losses of the endowment, and (4) less any income distribution in accordance with the spending policy which will be classified as temporarily restricted. In accordance with OUPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund;
- (2) The purpose of the foundation and the donor-restricted endowment fund; General economic conditions;

- (3) The possible effect of inflation and deflation;
- (4) The expected total return from income and the appreciation of investments;
- (5) Other resources of the foundation;
- (6) The investment policies of the foundation.

Return Objectives and Risk Parameters: The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by the endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results which generate a dependable, increasing source of income and appreciation while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 7% annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives: To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives while reducing risk to acceptable levels.

Spending Policy and How the Investment Objectives Relate to Spending Policy: The Foundation has a policy of appropriating for distribution each year the equivalent of up to 5% of its endowment fund's fair value as of the immediately preceding July 1. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 3% annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.



Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2015

Note 11: Eastern Oklahoma State College Foundation, Inc. (Continued)

Note 4: Endowments (Continued)

Endowment Net Asset Composition by Type of Fund as of June 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Donor-restricted endowment funds	\$ —	\$ 2,170,831	\$ 2,004,368
Board-designated endowment funds	—	—	—
Total endowment funds	\$ —	\$ 2,170,831	\$ 2,004,368

Endowment Net Asset Composition by Type of Fund as of June 30, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Donor-restricted endowment funds	\$ —	\$ 1,914,137	\$ 1,980,613
Board-designated endowment funds	—	—	—
Total endowment funds	\$ —	\$ 1,914,137	\$ 1,980,613

Changes in Endowment Net Assets for the year ending June 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Endowment net assets - beginning	\$ —	\$ 1,914,137	\$ 1,980,613
Investment return		61,559	—
Other income		64,205	—
Contributions		339,765	23,755
Appropriations for expenditure	—	(208,835)	—
Total endowment funds	\$ —	\$ 2,170,831	\$ 2,004,368

Changes in Endowment Net Assets for the years ending June 30, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Endowment net assets - beginning	\$ —	\$ 1,738,644	\$ 1,950,248
Investment return		255,738	—
Other Income		45,276	—
Contributions		185,450	30,365
Appropriations for expenditure	—	(310,971)	—
Total endowment funds	\$ —	\$ 1,914,137	\$ 1,980,613



Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2015

Note 11: Eastern Oklahoma State College Foundation, Inc. (Continued)

Note 5: Related Party Transactions

Based upon an exchange of service agreement, the College provides the Foundation with the necessary staffing and office space at no cost to the Foundation. Thus, the Foundation has no employees. In exchange, the College received scholarships, funds for capital improvements, and other services from the Foundation. The value of such services has been recorded on the financial statements as in-kind contributions.

Note 6: Fair Value Measurements

The Foundation uses quoted market prices to determine the fair value of an asset or liability when available. If quoted market prices are not available, the Foundation determines fair value using valuation techniques that use market-based or independently-sourced market data, such as interest rates.

The following methods and assumptions were used to estimate the fair value of assets and liabilities in the financial statements.

Cash and Cash Equivalents: The carrying amount approximates the fair value due to the short maturity of such amounts.

Investments: Investments in cash and cash equivalents, publicly traded securities, and mutual funds are stated at market value based on quoted market prices. Investments common trust funds, certificates of deposit, government agency bonds, and mortgage-backed securities are stated at market price as determined by the fund manager or quoted market prices in non-active markets. Other investments are stated at fair value based upon current market conditions and other factors deemed relevant to the valuation as provided by the independent valuation specialist and or Foundation management.

Pledges and Accounts Receivable: The carrying amount of receivables is based on the discounted value of expected future cash flows, which approximate fair value.

Other Assets: Remaining financial instruments are carried at cost, which approximates fair value.

Accounts Payable and Other Liabilities: The carrying amount approximates fair value due to the short maturity of those amounts.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value are:



Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2015

Note 11: Eastern Oklahoma State College Foundation, Inc. (Continued)

Note 6: Fair Value Measurements (Continued)

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other the Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying financial statements at fair value on a recurring basis and the level within the fair market value hierarchy in which the fair value measurements fall at June 30, 2015 and 2014.

	As of June 30, 2015			Total
	Level 1	Level 2	Level 3	
Investments				
Equity funds	\$ 654,510	\$ —	\$ —	\$ 654,510
Fixed income funds	344,094	—	—	344,094
Money market funds	23,673	—	—	23,673
Pooled Investment Funds	<u>2,070,805</u>	<u>—</u>	<u>—</u>	<u>2,070,805</u>
	<u>\$3,093,082</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$3,093,082</u>
	As of June 30, 2014			Total
	Level 1	Level 2	Level 3	Total
Pooled Investment funds	<u>\$3,409,657</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$3,409,657</u>

The following is a description of methodologies used for instruments measured at fair value on a recurring basis:

Investments: Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. Level 1 investments include equity securities, mutual funds, and money market funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 investments include equity securities with similar characteristics or discounted cash flows. Level 2 investments include equity securities, corporate and other bonds, U.S. government securities, marketable alternative assets, inflation hedging and opportunistic and other investments. In certain cases where Level 1 or Level 2 inputs are not available, investments are classified within Level 3 of the hierarchy and include corporate and other bonds and marketable and nonmarketable alternative assets.



Required Supplementary Information



Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Schedules of Required Supplementary Information
June 30, 2015

Schedules of Required Supplementary Information

SCHEDULE OF COLLEGE'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

OKLAHOMA TEACHERS RETIREMENT SYSTEM

Last 10 Fiscal Years* (Dollar amounts in thousands)

	2015
College's proportion of the net pension liability	0.2262%
College's proportionate share of the net pension liability	\$ 12,171,485
College's covered-employee payroll	\$ 8,599,447
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	142%
Plan fiduciary net position as a percentage of the total pension liability	72.43%

*The amounts present for each fiscal year were determined as of 6/30

Notes to Schedule:

Only the current fiscal year is presented because 10-year data is not yet available.



Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Schedules of Required Supplementary Information
June 30, 2015

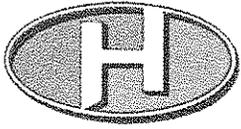
Schedules of Required Supplementary Information
 SCHEDULE OF THE COLLEGE'S CONTRIBUTIONS
 OKLAHOMA TEACHERS RETIREMENT SYSTEM
 Last 10 Fiscal Years (Dollar amounts in thousands)

	2015
Contractually required contribution	\$ 938,423
Contributions in relation to the contractually required contribution	938,423
Contribution deficiency (excess)	\$ -
College's covered-employee payroll	\$ 8,728,536
Contributions as a percentage of covered-employee payroll	11%

Notes to Schedule:

Only the current fiscal year is presented because 10-year data is not yet available.





**HINKLE &
COMPANY**
Strategic PC
Business Advisors

**Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of the Financial
Statements Performed in Accordance with
Government Auditing Standards**

Board of Regents
Eastern Oklahoma State College
Wilburton, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Eastern Oklahoma State College, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Eastern Oklahoma State College's basic financial statements, and have issued our report thereon dated October 27, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Eastern Oklahoma State College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Eastern Oklahoma State College's internal control. Accordingly, we do not express an opinion on the effectiveness of Eastern Oklahoma State College's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Eastern Oklahoma State College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

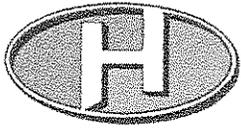
Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hick & Company, PC

Tulsa, Oklahoma
October 27, 2015





**HINKLE &
COMPANY**
Strategic PC
Business Advisors

**Independent Auditors' Report on Compliance for Each Major
Program; Report on Internal Control over Compliance; and Report
on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

Board of Regents
Eastern Oklahoma State College
Wilburton, Oklahoma

Report on Compliance for Each Major Federal Program

We have audited the Eastern Oklahoma State College compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a material effect on each of the Eastern Oklahoma State College's major federal award programs for the year ended June 30, 2015. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the College's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance referred to above that could have a direct and material effect on a major program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the College's compliance.

Opinion on Each Major Federal Program

In our opinion, the Eastern Oklahoma State College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2015-1 and 2015-2. Our opinion on each major federal program is not modified with respect to these matters. The College's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and/or corrective action plan. The college's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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Report on Internal Control Over Compliance

Management of the Eastern Oklahoma State College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Eastern Oklahoma State College's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2015-1 that we consider to be significant deficiencies.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the Eastern Oklahoma State College as of and for the year ended June 30, 2015, and have issued our report thereon dated October 27, 2015, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Tulsa, Oklahoma
October 27, 2015

Hick & Company, PC



Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Education		
Student Financial Aid Cluster		
Federal Pell Grant Program	84.063	\$ 3,526,041
Federal Direct Loan Program	84.268	3,282,035
Federal Supplemental Education Opportunity	84.007	29,700
Federal Work Study Program	84.033	<u>81,164</u>
Total Student Financial Aid Cluster		6,918,940
 TRIO Program Cluster		
Student Support Services	84.042A	280,190
Gear Up for Success	84.334A	1,960,134
Native American Serving Non-tribal Institutions	84.031X	585,732
Oklahoma State Department of Vocational Education		
Carl Perkins Vocational & Technical Funds	84.048	<u>4,672</u>
 Total U.S. Department of Education		<u>9,749,668</u>
 U.S. Department of Labor		
Pass-Through Program From:		
State of Oklahoma Mine Health & Safety Administration		
Mine Safety Grant	17.600	210,106
 Oklahoma City Community College		
OK Works Grant	17.282	<u>24,737</u>
 Total U. S. Department of Labor		<u>234,843</u>
 Total Expenditures of Federal Awards		<u>\$ 9,984,511</u>



Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

Note 1: Summary of Significant Accounting Policies

This schedule includes the federal awards activity of Eastern Oklahoma State College and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2: Subrecipients

Eastern Oklahoma State College provided no federal awards to subrecipients.



Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

Summary of Auditors' Results

1. The opinion expressed in the independent accountants' report was:
 Unmodified Qualified Adverse Disclaimed

2. The independent accountants' report on internal control over financial reporting described:
 Significant deficiency(ies) noted considered material weakness(es)? Yes No
 Significant deficiency(ies) noted that are not considered to be a material weakness? Yes No

3. Noncompliance considered material to the financial statements was disclosed by the audit? Yes No

4. The independent accountants' report on internal control over compliance with requirements applicable to major federal awards programs described:
 Significant deficiency(ies) noted considered material weakness(es)? Yes No
 Significant deficiency(ies) noted that are not considered to be a material weakness? Yes No

5. The opinion expressed in the independent accountants' report on compliance with requirements applicable to major federal awards was:
 Unmodified Qualified Adverse Disclaimed

6. The audit disclosed findings required to be reported by OMB Circular A-133? Yes No

7. The College's major program was:

Cluster/Program	CFDA Number
Student Financial Aid Cluster	
Federal Supplemental Education Opportunity Grants	84.007
Federal Direct Loan Program	84.268
Federal Work Study	84.033
Federal Pell Grant	84.063
Gear Up for Success	84.334A



Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

(Continued)

Summary of Auditors' Results (Continued)

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$300,000.

9. The College qualified as a low-risk auditee as that term is defined in OMB Circular A-133. Yes No

Findings Required to be Reported by Government Auditing Standards

No matters are reportable.



Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

Findings Required to be Reported by OMB Circular A-133

Finding 2015- 1

Compliance Requirement
Return of Title IV Funds

Type of Finding: Significant Deficiency that is not considered to be a material weakness.

Criteria: The regulations in 34 CFR 668.22 state that a school must always return any unearned Title IV funds it is responsible for returning within 45 days of the date the school determined the student withdrew.

Condition: For the year ended June 30, 2015, we sampled 60 Title IV fund recipients for testing the financial aid compliance requirements for disbursements. During the review of those who received disbursements, but later withdrew, we noted 1 instance that the institution did not return Title IV funds within 45 days of the schools determination that the student withdrew.

Cause: The student did not officially withdraw from all of their classes, but the student did have one administrative withdraw date for one of the classes. It was that date, which exceeded the 60% mark, and was used for the rest of the students dropped classes as that was the only available information at that time. However, after further review of this student attendance records, it was determined the student dropped some of the other classes prior to achieving the 60% mark, which generated a Return of Title IV funds.

Effect: As a result, the college did not meet the return of Title IV funds within the 45 day requirement.

Recommendation: We recommend management review internal controls to promote the review of drop forms on all students who have withdrawn along with reviewing final grade reports at end of each semester to make sure students with 0.00 GPA at the end of the payment period are reported.

Responsible Official's Response: Management agrees with finding and recommendation.

Corrective Action Planned: The College will assign dedicated staff to review the final grade reports at the end of each semester to determine the attendance and grade earned status of each officially or unofficially dropped or withdrawn student.



Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

Findings Required to be Reported by OMB Circular A-133 (Continued)

Finding 2015- 2

Compliance Requirement

Title IV Funds - Over Award

Type of Finding: Significant Deficiency that is not considered to be a material weakness.

Criteria: 34 CFR 668 state the regulations and remedies for overpayments of awards.

Condition: For the year ended June 30, 2015, we sampled 60 Title IV fund recipients for testing the financial aid compliance requirements for disbursements. During the review of those who received disbursements, we noted 1 instance that the institution incorrectly over awarded and disbursed funds to the student as full time status, instead of the correct $\frac{3}{4}$ time enrolled status.

Cause: Clerical error.

Effect: The student received an award calculation amount for a full time student when the student was actually enrolled on a $\frac{3}{4}$ time basis, and therefore, should only have received $\frac{3}{4}$ disbursement amounts.

Recommendation: We recommend for management to set up a manual and/or electronic review system that can verify student enrollment status prior to disbursements.

Responsible Official's Response: Management agrees with finding and recommendation.

Corrective Action Planned: The institution will adjust the student's award amount on their next batch drawdown request and establish a review of enrollment/award status.



Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Summary of Schedule of Prior Audit Findings
Year Ended June 30, 2015

No Item Reportable.

